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SUBJECT: SCENESETTER FOR CODEL WEXLER'S VISIT TO AZERBAIJAN

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11. (SBU) Azerbaijan's pro-Western foreign policy orientation, geopolitical setting -- sandwiched between Iran and Russia -- and ability to provide alternative energy supplies to Europe make it an important U.S. partner. It is in our interests to have a reforming, stable, pro-western Azerbaijan, which lies in the Eurasian heartland. Our bilateral agenda with Azerbaijan includes three interdependent interests: diversifying European energy supplies, promoting political and economic reform, and extending our security cooperation. We hope your visit will be an opportunity to reinforce the message of Azerbaijan's growing role as a strategic partner for the U.S. and the need to continue making mutual progress in our three core interests.

Energy Links Azerbaijan to the West

12. (SBU) Azerbaijan is a crucial link in the East-West energy corridor that aims to diversify Europe's energy supply. U.S.-Azerbaijan cooperation was critical in realizing the Baku-Tbilisi-Ceyhan (BTC) pipeline project, which in July 2006 delivered its first oil to Ceyhan, Turkey. Azerbaijan's ability to transit gas to Europe increasingly is the focus of our bilateral energy discussions. With up to one trillion cubic meters in new gas reserves and the political will to bring them to European markets, Azerbaijan's gas could enhance European energy security. At the same time, Azerbaijan faces pressure from Iran and Russia not to be too closely linked to the West. Neither Tehran nor Moscow is interested in seeing Azerbaijan play a supplier and transit role for sending Caspian oil and gas to Europe. In your meetings with GOAJ officials, conveying the message that the U.S. Congress is grateful for Azerbaijan's role in diversifying Europe's energy supplies -- despite regional pressures -- will reinforce broader U.S. efforts to let the government know that Azerbaijan plays an important regional role.

Robust Security Cooperation

13. (SBU) Azerbaijan is a steadfast partner in U.S. counterterrorist efforts. In Iraq, 151 Azerbaijani (Shiite Muslim) infantry troops stand alongside U.S. Marines guarding the Haditha Dam. Azerbaijan is also contributing troops in Afghanistan and peacekeepers in Kosovo. In October, the Azerbaijani Parliament voted to double the number of Azerbaijani peacekeepers serving in Afghanistan from 22 to 45. Azerbaijan provides blanket over-flight rights for U.S. aircraft, as well as strong information sharing and law enforcement cooperation in fighting terror.

¶4. (SBU) Azerbaijan is in the process of drafting a second Individual Partnership Action Plan (IPAP) with NATO. Azerbaijan's first IPAP began in 2005, promoting defense sector reforms and Azerbaijan's interoperability with NATO. The IPAP is a good umbrella for Azerbaijan-NATO cooperation, although the GOAJ often sends mixed public signals on the question of whether it wants to join NATO eventually. The U.S. works extensively with the Azerbaijani Navy and Coast Guard to increase Azerbaijan's interdiction capabilities against proliferation and terrorist threats on the Caspian Sea.

¶5. (SBU) Security cooperation is one of the strongest aspects of our bilateral relationship. In your meetings with Azerbaijani officials, it would be helpful to thank them for their consistently strong support, despite Iran and Russia's distaste for such cooperation. Azerbaijani officials may tell you that the ongoing Nagorno-Karabakh (NK) conflict and Section 907 of the Freedom Support Act restrain our cooperation. The OSCE Minsk Group is tasked with helping Azerbaijan and Armenia resolve their conflict; Department of State EUR Deputy Assistant Secretary Matt Bryza is one of the three OSCE Minsk Group Co-Chairs. According to Section 907 of the Freedom Support Act of 1992 (P.L 102-511), the U.S. is limited in the types of aid it can provide to Azerbaijan because of the ongoing NK conflict. Since 2001, however, the U.S. Congress has granted the President the authority to waive Section 907 on national security grounds, which President Bush has done on an annual basis.

Promoting Reform is Tough Work

¶6. (SBU) Getting the GOAJ to make substantive political and economic reform is an ongoing challenge that mirrors difficulties in most other post-Soviet states. The U.S. engages with the Azerbaijani Government at all levels, arguing that our three core interests are mutually reinforcing and interdependent. Cooperation in the areas of security or energy cannot be divorced from Azerbaijan making the right steps toward reform. One of the key challenges is that many in the government do not perceive reforms as serving their immediate, personal, short-term interests. We seek to convince these officials that taking difficult reforms meets Azerbaijan's desired goals of prosperity, regional prestige, and long-term stability. Azerbaijan aspires to be a regional leader, but this can only come through the path of reform.

¶7. (SBU) We are concerned by a trend of increased government pressure against the media and critics of the government. The media environment is heavily restrictive, with transparently implausible criminal court cases against journalists and violent attacks against journalists that have gone unprosecuted and unpunished. Most Azerbaijanis argue that the media's ability to criticize or question government policies has significantly deteriorated in the last year. One piece of good news is that President Aliyev pardoned 119 prisoners -- several of whom (including five high-profile journalists) appeared to have been jailed because of their criticism of the government. It would be helpful to acknowledge the importance of the pardon as a first step toward allowing a more robust and critical press.

¶8. (SBU) In addition to the problem of media freedom, the government since the 2005 elections has restricted the ability for peaceful groups to assemble, particularly in central areas of Baku. Moreover, it has put pressure on opposition political parties by restricting their ability to rent office space, hold meetings, raise funds and carry out normal political activities. Civil society representatives also complain that they increasingly feel under fire and are nervous that a recent Presidential decree for state financial support to NGOs is another instrument of government control.

Rapid Economic Growth

¶9. (SBU) With GDP growth of 36 percent in 2006, Azerbaijan has one of the fastest growing economies in the world, driven nearly entirely by an unprecedented inflow of energy revenue.

The growth rate for 2007 remains and is anticipated to be between 20-25 percent. The government's economic planning, and the country's judicial, regulatory and banking sectors are weak and ill-prepared to manage this enormous influx of revenue. Corruption is pervasive throughout Azerbaijan. Significant institutional reform and capacity-building will be required to manage the stable growth of Azerbaijan's economy and to prevent Azerbaijan from succumbing to the "oil curse" experienced by many other energy producers.

¶10. (SBU) The U.S. is providing technical assistance to help Azerbaijan manage this transition, primarily through USAID's Trade and Investment Program, anti-corruption programs, rule of law programs and a program to help strengthen the GOAJ's consolidated budgeting process. Moreover, we believe the World Trade Organization (WTO) accession process, for which we are providing technical assistance, is the key vehicle through which we can promote implementation of successful economic reform that will keep Azerbaijan's development on a stable path. While the government has submitted important, WTO-compliant draft legislation to Geneva, it has not yet followed through on the long awaited co-financing for the Trade and Investment Program, an important signal of its commitment to WTO accession and economic reforms.

Background on Azerbaijan's Jewish Community

¶11. (SBU) There are approximately 16,000 Jews living in Azerbaijan. The Mountain Jewish community is the largest and oldest Jewish group in Azerbaijan, with approximately 11,000 members. Scholars disagree whether they came to modern-day Azerbaijan after the destruction of the first Jewish temple in 722 BC or whether they migrated from Persia several hundred years ago. The second largest community is the Ashkenazi Jews (4,300 members), who came to Baku during the 19th century in parallel with the Czarist subjugation of the South Caucasus. Finally, there are approximately 700 Georgian Jews. There are good working relations between the Jewish community and the government, and Israel and Azerbaijan have close ties. We have arranged a meeting for you with Semyon Ihilov, the leader of the Mountain Jewish (Sephardic) community in Azerbaijan, who can provide you with more details on the Jewish community in Azerbaijan.

¶12. (SBU) In your meetings with officials, we believe it is important to highlight the interrelationship of our three interests. Appealing to the government's desire to project Azerbaijan as a regional leader, Azerbaijan can accomplish this goal in part through opening up the political and economic space. The October 2008 presidential election presents a tremendous opportunity for President Aliyev to burnish Azerbaijan's democratic credentials by allowing the opposition, civil society, and the media more political space. As the Embassy routinely tells the government and the general public, the U.S. support the process of a free and fair election and our concerns will focus most heavily on the process over the result.

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